

Message Text

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ACTION NEA-10

INFO OCT-01 EA-07 ISO-00 SS-15 TRSE-00 AID-05 CIAE-00
DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01
PRS-01 SP-02 USIA-06 OMB-01 EB-07 COME-00 IO-13 IGA-02
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R 071432Z DEC 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 9493

INFO AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

C O N F I D E N T I A L CAIRO 16846

E.O. 11652: GDS

TAGS: USEGJC EAID EFIN IMF

SUBJECT: ASSISTANCE TO EGYPT: IMF

REF: CAIRO 16232 (NOTAL)

1. WORKING-LEVEL IMF TEAM ARRIVED IN CAIRO A FEW DAYS
AGO, AND IS ENGAGED IN DISCUSSIONS WITH GOE OFFICIALS,
PARTICULARLY IN MINECON, MINFIN, AND MINPLAN, ON SUBJECTS
RELATED TO PROVISION OF AN EXTENDED FUND FACILITY (STANDBY).
TEAM LEADER IS PAUL DICKIE, WHO HAS HEADED FUND'S ACTIV-
ITIES IN EGYPT FOR PAST THREE YEARS (AND BEEN RESIDENT IN
CAIRO PAST THREE MONTHS), PENDING ARRIVAL OF VP FOR ME
GUNTER ON DECEMBER 7.

2. ON BASIS HIS EXPERIENCE, WHICH INCLUDES A NUMBER OF ON
AGAIN-OFF AGAIN STANDBY CONSULTATIONS, DICKIE FEELS IMF
HAS BETTER CHANCE NOW FOR CONCLUSION OF AN AGREEMENT
THAN IT HAS HAD IN PAST. NEW MINISTERS APPEAR TO HAVE
A BETTER UNDERSTANDING OF EGYPT'S FINANCIAL DIFFICULTIES
THAN THEIR PREDECESSORS, AND A GREATER WILLINGNESS TO CON-
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SIDER MEANS FOR DEALING WITH THEM, INCLUDING SOMEWHAT DIFFICULT

STEPS ADVOCATED BY FUND: REDUCTIONS IN SUBSIDIES, RATIONALIZATION OF PRICING SYSTEM, MOVEMENT TOWARD A MORE REALISTIC EXCHANGE RATE, ETC. THESE MOVES WOULD HAVE AN IMPACT ON THE DOMESTIC ECONOMY THAT WOULD IN TURN PRODUCE POLITICAL RAMIFICATIONS OF A NATURE THAT HAVE MADE EGYPTIAN LEADERS HESITANT IN THE PAST TO ADOPT RECOMMENDED REFORMS.

3. DICKIE'S PRINCIPAL FEAR IS THAT--AS HAS HAPPENED BEFORE--TECHNOCRATS UP TO AND INCLUDING SOME MINISTERS WILL AGREE WITH FUND THAT VARIOUS REQUIRED MEASURES WILL BE TAKEN, BUT PROGRAM WILL COLLAPSE WHEN IT REACHES POLITICAL LEVEL AND FULL IMPACT OF REFORMS IS PERCEIVED IN TERMS OF POTENTIAL FOR DOMESTIC PROBLEMS: HIGHER PRICES, REDUCED AVAILABILITEES OF SOME GOODS, RELATIVE AUSTERITY, ETC. SINCE CONCLUSION OF A STANDBY HAS BECOME THE SINE QUA NON FOR CONTINUED MAJOR ECONOMIC DONATIONS FROM ARABS AND OTHERS, FAILURE TO REACH AN AGREEMENT,--AND IMPLEMENT IT--COULD AFFECT STABILITY OF SADAT REGIME.

4. COMMENT. EMBASSY CONCURS WITH BOTH DICKIE'S POINTS IN ABOVE ASSESSMENT, I.E. CHANCES FOR STANDBY ARE BETTER THAN IN PAST, BUT THEY STILL ARE NOT ALL THAT GOOD. SITUATION IS SOMETHING OF TRADITIONAL PARADOX, IN THAT THE VERY PROBLEMS THAT MAKE ECONOMIC REFORMS ADVISABLE ARE THE ONES THAT CREATE POLITICAL OBSTACLES. WITH THE ECONOMY IN STEADILY WORSENING CONDITION, THAT HAS ALREADY LED TO GRUMBLING, STRIKES AND DEMONSTRATIONS, THE GOE IS RELUCTANT TO CHANCE THE MORE SERIOUS REACTIONS THAT MIGHT RESULT FROM THE IMPOSITION OF REFORMS. INSTEAD, GOE POLITICAL LEVEL MAY BE EXPECTED TO WANT TO COMPROMISE ON EXTENT OF IMP PROPOSED REFORMS IT WILL ACCEPT AT THIS TIME.

5. PART OF THE PROBLEM IS LACK OF SOLID INFORMATION AS TO ASSISTANCE THAT WILL BECOME AVAILABLE WHEN AND IF STANDBY IS CONCLUDED. WITH EXCEPTION OF US PROGRAMS FOR FY 1977, WHICH HAS BEEN SET AT ONE MILLION TONS OF PL 480 WHEAT AND \$700 MILLION IN AID FUNDS, EGYPTIANS ARE UNSURE OF AMOUNTS THAT WILL BE MADE AVAILABLE TO HELP THEM THROUGH WHAT THEY FORESEE AS DIFFICULT ADJUSTMENT PERIOD RESULTING FROM IMF AGREEMENT. WE SUSPECT THAT OTHER DONORS, PARTICULARLY

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ARABS, HAVE TAKEN POSITION THAT THIS SUBJECT CAN BE DISCUSSED AT FIRST SESSION OF IBRD CONSULTATIVE GROUP (CG) FOR EGYPT, TENTATIVELY SCHEDULED IN PARIS NEXT MARCH OR APRIL. SINCE CONVOCAION OF CG IS ITSELF CONTINGENT ON STANDBY, ACCORDING TO POSITION ADOPTED BY BANK, GOE IS AGAIN CAUGHT IN A BOX.

6. ON BASIS OUR DISCUSSIONS WITH EGYPTIANS, WE BELIEVE

CHANCES FOR SUCCESSFUL STANDBY AGREEMENT TO BE SOMETHING
LESS THAN 50-50. THERE MAY BE CONSIDERABLE MOVEMENT IN THAT
DIRECTION, INCLUDING WORKING-LEVEL COMMITMENTS, BUT LIKLIHOOD
OF FORMAL, OVERALL GOE UNDERTAKING OF KIND IMF WILL INSIST
UPON IS NOT HIGH. DICKIE, WHOSE EXPERIENCES IN EGYPT HE
SAYS HAVE MADE HIM SUSPICIOUS OF ALL KINDS OF NUMBERS,
NEVERTHELESS AGREES WITH ABOVE JUDGEMENT.
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